MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2015/2016

BME1024 – INTRODUCTORY MACROECONOMICS

(All sections / Groups)

5 OCTOBER 2015
9:00am – 11:00am
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 3 pages with 5 Questions only.
2. Attempt ALL **FIVE** questions. All questions carry equal marks and the distribution of the marks for each question is given .
3. Please write all your answers in the Answer Booklet provided.

Question 1

a) Suppose that the amount of personal income taxes decrease, while the level of GDP remains the same. What will happen to the values of national income, personal income and disposal national income?
(5 marks)

b) Suppose an economy's real GDP is RM400,000 in year 1 and RM550,000 in year 2.

i) What is the growth rate of the GDP?
(5 marks)

ii) Assume that population was 800 in year 1 and 1000 in year 2, what is the growth rate of GDP per capita?
(5 marks)

c) Give **five** examples of intermediate goods and their corresponding final goods.
(5 marks)

Question 2

(Total: 20 marks)

a) Explain the **five** steps used in calculating inflation through the Consumer Price Index (CPI) method.
(15 marks)

b) If the Consumer Price Index in Malaysia was 124.0 in 2004 and the index was 130.7 in 2005, calculate the rate of inflation in 2005.
(5 marks)

(Total: 20 marks)

Question 3

a)

i) What are the marginal propensity to consume (MPC) and marginal propensity to save (MPS)?
(6 marks)

ii) How are the two concepts related to the consumption and saving functions? (4 marks)

Continued...

b) Complete the following table assuming that (a) MPS = 1/5, (b) there is no tax and all saving is personal saving. (10 marks)

Level of output and income	Consumption	Saving
$250	$260	$____
275	____	____
300	____	____
325	____	____
350	____	____
375	____	____
400	____	____

(Total: 20 marks)

Question 4

a) What happens to the money supply when a bank accepts deposits of currency from the public and places it in checkable deposits (or checking accounts)? (5 marks)

b) Explain how a change in the reserve ratio affects the money supply. (5 marks)

c) Use the following bank transactions to develop the bank's balance sheet. The bank owners open the bank and receive RM1,250,000 in checkable deposits. Next, they purchase RM200,000 worth of equipment and office space to establish the physical location of the bank. They make $600,000 worth of loans. (10 marks)

(Total: 20 marks)

Question 5

a) The following table shows government spending and tax revenue for a hypothetical economy over a five-year period. All figures are in billions.

Year	Government Spending	Tax Revenues
1	RM1100	RM1050
2	1150	1100
3	1250	1150
4	1250	1300
5	1300	1250

Continued...

i) In what years were there budget deficits and what were the amounts? (6 marks)

ii) In what year was there a budget surplus and what was the amount? (2 marks)

iii) What is the public debt in this economy over the five years? (4 marks)

iv) If the size of the economy (GDP) was RM6000 billion, what is the public debt in year 5 as a percentage of GDP? (4 marks)

b) What should happen to the exchange rate between Malaysia ringgit and Thailand baht (according to the theory of purchasing power parity), if the inflation rate in Malaysia is higher than the inflation rate in Thailand? (4 marks)

(Total: 20 marks)

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